IDAHO OUTLOOK

NEWS OF IDAHO'S ECONOMY AND BUDGET

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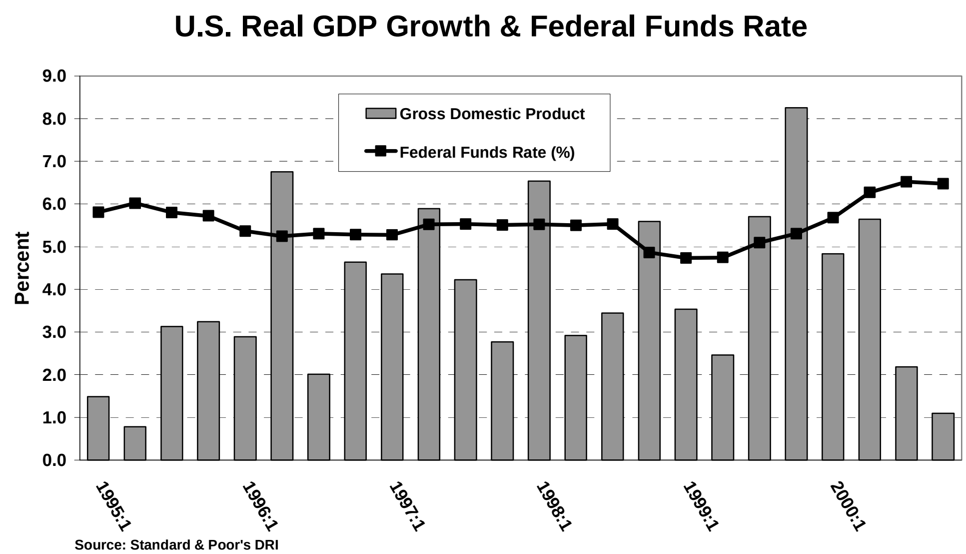

Rough Landing. Passengers are asked to take their seats and fasten their safety belts as the pilot attempts to bring the nation's economy in for a soft landing. At the controls is Federal Reserve Chairman, Alan Greenspan. He has pulled off this rare maneuver of slowing the economy without causing a recession once before in the mid-1990s. His latest attempt began about a year and a half ago. In June of 1999, the Federal Reserve made the first of several interest rate increases. This was a preemptive strike to cool the economy that was on the verge of overheating. With a timeliness that any airline would envy, the economy began showing signs of slowing right on schedule in the summer of 2000. Since then, the initial sighs of relief have been replaced with signs of warning. The economy has been slowing faster than anticipated, and there are now concerns that this slowdown could accelerate even further. Although the economy is not in a recession, it is close. By the last quarter of 2000, real GDP growth had slowed to a 1.1% annual rate. This reading has not been missed by the nation's central bank. The fear is that it tightened too aggressively. In an attempt to avoid a recession, Chairman Greenspan and his crew throttled up and pulled back the stick by lowering their interest rate targets twice in January. However, it usually takes at least six months to see the results of a policy change, so these decreases will have no impact until the second half of this year. President Bush has offered his $1.6 trillion tax cut plan as a way for the economy to avoid a recession. Even assuming the President's tax package becomes law quickly, its effects would not be felt until the second half of this year. The bottom line is that there is little that can be done policy-wise to change the economy's direction over the next few months. Not all the news is negative, however. For example, while there have been several highly publicized layoffs, the U.S. economy is still at full employment. Inflation threats appear to be receding. The U.S. housing market remains robust. The stock market is stabilizing after last year's correction. Current conditions suggest an appropriate action lies somewhere between keeping our fingers crossed and bracing for a hard landing.

Fiscal Blues. The nation's abrupt economic slowdown has wasted no time showing up in state finances. Across the country states are curtailing tax breaks and ambitious spending plans, and some are grappling with sharp cutbacks in already enacted budgets. By all appearances, the days of unparalleled state government surpluses are rapidly giving way to painful shortfalls. According to the *State Revenue Report*, published by the Nelson A. Rockefeller Institute of Government, the third quarter of 2000 (July – September) had 7.1% revenue growth, the strongest third quarter in the 10 years the Report has been published. Although this is the most recent report that looks at all state government general funds, it is nonetheless a look in the rear view mirror. More recent anecdotal evidence reveals how suddenly and sharply state finances can reverse course. Iowa is considering layoffs and service reductions in the current state budget. Louisiana's governor has ordered a $30 million holdback and a hiring freeze. Tennessee faces a $300 million shortfall with "state sales tax revenues lagging far behind projections." Utah recently trimmed $32 million from its revenue forecast. Wisconsin's governor has just proposed "the leanest state budget in 20 years," a 2.9% increase. He also faces a $554 million current year deficit. Idaho has not yet felt a revenue slowdown (General Fund revenue through January was still $8.1 million above expectations), but caution signs are popping up all over. Layoffs have begun to spread from the resource industries to high-tech manufacturers (Jabil Circuit and Hewlett Packard), lottery sales are weakening, and energy prices are skyrocketing. Absent a quick turnaround in the national economic slowdown, Idaho looks as though it may join the choir of state governments that are singing the fiscal blues.

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General Fund Update

As of January 31, 2001

Revenue Source	FY01 Executive Estimate[3]	DFM Predicted To Date	Actual Accrued To Date
	$ Millions		
Individual Income Tax	1024.2	588.3	580.1
Corporate Income Tax	170.0	75.4	90.3
Sales Tax	658.0	401.0	394.3
Product Taxes[1]	20.7	12.4	12.3
Miscellaneous	127.0	77.4	85.6
TOTAL GENERAL FUND[2]	**1999.8**	**1154.5**	**1162.6**

1 Product Taxes include beer, wine, liquor, and cigarette taxes
2 May not total due to rounding
3 Revised Estimate as of January 2001

January 2001 General Fund revenue collections turned in their weakest performance since last August, coming in $4.7 million lower than expected. Individual Income Tax and Sales Tax receipts were a combined $8.4 million short of the target for January, but this weakness was partially offset by stronger-than-expected Corporate Income Tax and Miscellaneous Revenue collections. Cumulative General Fund revenues are ahead by $8.1 million, but this is mostly due to another large, unexpected Estate Tax receipt that came in December.

Individual Income Tax collections in January were $4.6 million lower than expected. Withholding collections were the source of this weakness, with $4.6 million less than predicted. Filing collections were stronger than expected in January by $2.3 million, but refunds were also high by an identical amount. This is the second consecutive month of withholding weakness, and by far the largest withholding shortfall of any month this fiscal year. January withholding growth was expected to be 9.3 percent, but only managed 3.5 percent growth.

The Corporate Income Tax was $2.2 million higher than expected in January. This is entirely due to larger-than-expected estimated payments (up $4.4 million). This strength was partially offset by weaker-than-expected filing payments (down $1.3 million) and higher-than-expected refunds (up $1.0 million). January's unusually large estimated payments are almost 92 percent higher than was expected. In comparison, December's estimated payments were only 46 percent larger than expected. Past experience suggests that caution should be exercised when dealing with estimated payments, since they can easily be cancelled by subsequent large refunds.

Sales Tax collections were $3.8 million lower than expected in January. This is the fifth consecutive month that sales tax has come in below expectations this fiscal year. January collections reflect December sales activity, so this corresponds to widely acknowledged weak holiday sales activity. Recent deterioration in the state and national economic outlook (and national consumer confidence) do not bode well for this revenue category.

Product Taxes came in slightly ($0.1 million) below target in January. Miscellaneous revenues were $1.6 million higher than expected for the month of January. This was primarily due to a combination of estate tax (ahead by $0.6 million) and interest earnings (also ahead by $0.6 million).